S. HRG. 100-60

NOMINATIONS OF EDWARD W. KELLEY, JR. AND CARL D. COVITZ

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

THE NOMINATIONS OF

EDWARD W. KELLEY, JR., OF TEXAS, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR THE UNEXPIRED TERM OF FOURTEEN YEARS FROM FEBRUARY 1, 1976, VICE EMMETT JOHN RICE, RESIGNED

AND

CARL D. COVITZ, OF CALIFORNIA, TO BE UNDER SECRETARY OF HOUSING AND URBAN DEVELOPMENT, VICE LEE L. VERSTANDIG

MAY 5, 1987

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NOMINATIONS OF EDWARD W. KELLEY, JR., OF TEXAS, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

AND

CARL D. COVITZ, OF CALIFORNIA, TO BE UNDER SECRETARY OF HOUSING AND URBAN DEVELOPMENT

TUESDAY, MAY 5, 1987

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 10:05 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Garn, Gramm, Shelby, Hecht, Dixon, Graham, and Cranston.

Also present: Senator Wilson.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. The committee will come to order.

Gentlemen, will you both please rise.

[Witnesses sworn.]

The CHAIRMAN. Welcome to this hearing on the nomination of Edward Kelley to serve as one of the 7 Governors of the Federal Reserve Board and of Carl Covitz to serve as Under Secretary of the Department of Housing and Urban Development.

All these offices are extraordinarily important. If the operation of the central bank and the management of national housing policy are to be successful, it is crucial that we attract the best-qualified men and women in their field.

Over the years, Presidential administrations have recruited outstanding leaders for the Federal Reserve and the Senate Banking Committee have come to accept this and opposes nominees who do not meet these high standards.

Today we begin with Edward "Mike" Kelley.

Senator Gramm has asked that he introduce the nominee. Of course, we are delighted and very honored to have Senator Gramm, who is a brilliant Member of the Senate and a very effective member of this committee.

I will yield to Senator Gramm.

Senator GRAMM. Thank you, Mr. Chairman.

I would like to first say to Mike Kelley, welcome to the committee. We are very proud in Texas that the President has chosen you as the nominee for this very high post. It is an important post to the future of the Nation and its prosperity. I would like to say, Mr. Chairman, Mike Kelley is well known and respected by the people in his community and State and has been a business and civic leader. I think he brings a broad background of work as an entrepreneur, a businessman, a civic leader, a banker. I think it is a perspective that the Federal Reserve Bank needs. So I am very proud of this nomination. I am very supportive of Mike Kelley. I commend him to this committee.

I recommend that the committee and the Senate confirm him, so that he can get to work on the job that we all know needs to be done, in terms of providing a business climate where we can have more entrepreneurs, more businesses, more jobs, more growth and more opportunity for our people.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Gramm.

Gentlemen, I would like to ask each of you in turn, first, Mr. Kelley. If you are confirmed, Mr. Kelley, will you agree to appear before this and other committees of Congress to testify?

Mr. KELLEY. Yes, sir.

The CHAIRMAN. Mr. Covitz?

Mr. COVITZ. Yes, sir, I do.

The CHAIRMAN. Mr. Kelley, did the general counsel of the Federal Reserve conduct a review of your financial holdings to determine whether there would be any conflict, and if there are any such holdings, would you be ready to divest them?

Mr. KELLEY. Yes, sir. He has conducted such a review, and I believe we are completely together, he and I. Those things that I have agreed to do will eliminate any conceivable conflict of interest perceived or real.

The CHAIRMAN. Could you summarize what those things are and when you expect to take action on them?

Mr. KELLEY. I own a number of publicly traded securities, a few of which the general counsel thought could conceivably present a conflict of interest with matters that could come before the Federal Reserve. He has made such a list, which I believe has been submitted to the committee, and I have agreed to divest myself of each one of those securities.

The CHAIRMAN. Can you tell us within what time frame you expect that?

Mr. KELLEY. I have agreed to do it within 3 months of confirmation. My expectation is that I will do it a great deal more quickly than that.

The CHAIRMAN. Mr. Covitz, has the general counsel reviewed your financial holdings to determine if there would be any conflict?

Mr. COVITZ. Yes, sir, he has. There's been a determination that there is no conflict.

The CHAIRMAN. Senator Gramm.

Senator GRAMM. Thank you, Mr. Chairman.

I would like to ask just a couple of questions of Mr. Kelley, basically related to our international trade problems and to the value of the dollar. I would like to begin, Mr. Kelley, by asking you what role do you see for the Federal Reserve Bank in any effort to try either to peg the value of the dollar relative to foreign currencies or to offset swings in the value of the dollar relative to foreign currencies.

Mr. KELLEY. Well, sir, basically, the currency exchange market is a speculative market. In years past these markets were much more closely attuned to real transactions than were taking place in international trade. Today, there are some $200 billion a day that is traded in the currency markets, and the biggest part of that is speculative activity. As a consequence, having taken on a speculative tone, it's behaving, in many respects, like other specultative markets do.

It will go along trendlessly for a time, then a trend will set in and that trend is going to run its course, unless something is done to try to ameliorate it. Ideally, I think one should allow those trends to run their course; however, in this case, I think that governments and central banks have to be sensitive to the fact that too rapid a decline, too steep a decline, or in the opposite case, an ascendancy in the currency is going to cause a wide variety of real economic disruptions, and at some point, when that kind of a trend is running, there is a point where an intervention is appropriate.

I think that determination, as I read in the press, was made recently, and I accept that as having been necessary at that time.

It seems to me that the dollar value, which is now about back to where it was in 1980, when things were going pretty well, is at an appropriate level, and I would hope that it would settle out around where it is now, which as I understand it, is the objective of the industrialized countries and the central banks.

Senator GRAMM. Let me ask you a second and final question.

As you know, there is an age-old debate in banking circles, generally. People that are at the policy level in banking are no longer worried about people paying off the loans they made them, so they have to do something. And they debate these issues. And the age-old debate of what the policy objectives of the Federal Reserve Bank should be continue to occur.

I know you are new at this, and what you are basically doing is bringing your broad background and business experience to the Fed, but I would like to at least ask your initial views concerning the degree to which the Federal Reserve Bank ought to be trying to control interest rates versus the degree to which it ought to be trying to control the money supply.

Mr. KELLEY. I'm not sure that I can see that as an either/or. I think they are complementary and interactive activities. I think that one of the main objectives of an agency like the Federal Reserve System is to try to, in every way it can, promote an atmosphere and environment of stability, predictability, and dependability.

In that regard, I think that it is appropriate to try to even out swings the best that the Fed can do that. It does not control interest rates, as you well know. It influences them, and it is a major

player, but the market sets interest rates and interest rates fluctuate.

So I would hope that the Fed would act as a force in the direction of stability, dependability, and predicability.

Senator GRAMM. Thank you, Mr. Chairman. Thank you, Mr. Kelley.

The CHAIRMAN. Thank you very much, Senator Gramm.

Mr. Kelley, as you know, many bank executives are bristling for new authority, expanded powers and the like. We've considered that over the years on the committee, and it is very urgent to pass legislation out of the Senate. We don't know what the fate of that legislation will be. It depends upon what the House does, and so forth. But we have provided in that legislation for a moratorium on the Federal Reserve Board providing those powers for a year, at least until March 1, 1988.

Before I ask you about whether you think the Federal Reserve Board should proceed as they seem to have proceeded with a divided decision just the other day, I would like to ask you whether you believe that the banks should be granted greater authority to compete, for example, in underwriting mortgage-backed securities, commercial paper, and revenue bonds, selling mutual funds, et cetera.

Mr. KELLEY. Let me begin, sir, by saying that as a general principle, I believe in deregulation. I think that the deregulation that's taken place in our economy over the 1980's, basically, has been a positive thing, both in economic and social terms. I would hope that that can be extended further into the financial services industry.

Having said that, I think that there is a special public interest consideration in the financial services industry, and that is that we simply must at all times maintain a strong, vigorous, and dependable system. As we think about deregulation, we must do it within the framework of maintaining the integrity of the public safety net that has been put under depository institutions. The integrity of that safety net has got to be maintained.

So I favor moving forward expeditiously with concern that we maintain a sound and thoroughly—I've got the wrong tense of the verb here—integrity of the system that is maintained and maintained in a paramount way at all times.

So I favor granting those powers, but I favor doing it in such a way that we insure, at all times, that the integrity of the depository institutions and the safety net that is underneath them is intact and is not endangered.

The CHAIRMAN. As you know, some 50 years ago, the Congress passed the Glass-Steagall Act. One of the clear provisions of that act is that there should be limits on underwriting by banks. That act has not been repealed. Nevertheless, an interpretation of that act by the Federal Reserve, which decided by a 3 to 2 vote last Thursday, with Chairman Volcker and Governor Angell dissenting, that bank holding companies could start underwriting to a considerable extent in some of these areas that I have discussed.

The hesitation that some of us have on that is that we think we should be given an opportunity to decide whether or not Congress should amend the Glass-Steagall Act. And as I say, the Senate has

already acted on that legislation, and it may or may not become law.

But under those circumstances, how would you have voted on that 3 to 2 decision? [Laughter.]

Mr. KELLEY. Well, sir, as you know, there was a hearing on that point, back in February. A great deal of documentation was submitted to the Board members. I am very sure they must have had consultation in private amongst themselves, and without having had the benefit of all of that, I can't say how I would have voted. I do note in the press, and I assume that it is an accurate report, that the dissents by Governor Angell and Chairman Volcker were more in the area of whether or not the Board had the power to make the decision rather than on the basis of the substance of the desirability of granting those powers.

The CHAIRMAN. I think I would agree with that.

Now how would you have voted? [Laughter.]

Mr. KELLEY. I really cannot say, sir, without having had the benefit of that.

The CHAIRMAN. Senator Garn has arrived. Go ahead, Senator.

Senator GARN. Thank you, Mr. Chairman. I apologize for being late. For 6 years, as chairman, I was always right on time. So when you lose the responsibility, you become irresponsible. [Laughter.]

No, the traffic on the 14th Street Bridge was a little bit bad this morning. There was an accident. And I had a press conference with the Utah media on a flap that occurred there. So I apologize for being late. And I apologize for having to leave early. It is just one of those days that happens around here, occasionally.

I won't take the time of the committee. I would simply ask unanimous consent that my statement be placed in the record.

Mr. Kelley and Mr. Covitz, I am pleased with both of your nominations. I do not however, have any questions for you at this time.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Garn.

[The complete prepared statement of Senator Garn follows:]

STATEMENT OF SENATOR GARN

Senator GARN. I welcome Mr. Carl Covitz who is here before us today as nominee for Under Secretary of the Department of Housing and Urban Development.

Mr. Covitz brings with him over 25 years of experience in business, building, and development. He is recognized as a dedicated public servant in his hometown of Los Angeles, CA.

HUD has been too long without an Under Secretary. Mr. Covitz is well-qualified for the job. I look forward to hear his statement, and trust that his confirmation by the Senate as a whole will be swift.

I would also like to welcome Mr. Kelley to the committee this morning and wish him the best of luck in his confirmation and, as I assume it will move quickly through the Senate, in his future role as a member of the Board of Governors of the Federal Reserve System.

I want to say first of all, that I think Mr. Kelley is an excellent candidate and should do a fine job at the Federal Reserve. I know for myself, and many other members of this committee, that it is important for the Board of Governors to represent fully the wide range of interests that make up this Nation. Mr. Kelley will bring to the job an extraordinary base of expertise, which he has gathered over the course of his career in manufacturing, commerce, transportation, and investments. Mr. Kelley's hands on experience in a number of private sector corporations will be a valuable asset to the Board.

It is refreshing also to see another candidate for the Federal Reserve Board who can understand the problems of the small and medium size banker in this country. The Board of Governors will benefit a great deal from the experience Mr. Kelley has gained in the process of founding two small banks in Texas, and serving on the board of directors of a third.

I commend the President for nominating such a well-qualified candidate and look forward to his statement and rapid confirmation.

Senator Shelby?

Senator SHELBY. Mr. Chairman, I have no opening statement. I just commend you for the timeliness of the hearing and look forward to the testimony and the questions of these two fine gentlemen.

The CHAIRMAN. Thank you very much.

Mr. Kelley, some of us have been disturbed at the very rapid rate of increase in the money supply over the last 18 months or so. In 1986, the increase in M1 but also the increase in M2 and M3 was very great, particularly in view of the nominal increase in the GNP, which should have measured, to some extent the requirement for this. The feeling is that, although we had a marvelous inflation experience in 1986, the inflation was the best we have had in many, many years, that this is storing up trouble in the future and liquidity is going to be spent, and then we are going to be in real inflation trouble.

What is your view? I think that the main responsibility, as I see it, of the Federal Reserve Board is with respect to monetary policy. It has enormous powers, very, very important to our economy. It can offset or aggravate the deficit problems which Congress creates. And I would be very interested in knowing how you feel about that, because you are going to be one of the people who are going to be determining that policy.

Mr. KELLEY. Yes, sir. As you very well know, M1 is really the one that kind of went off the page, if you will. I forget what the number was in 1986, but it was a very high number. M1 seems to have changed its characteristics, since the deregulation of interest rates began back in 1980.

As a consequence, as near as I can tell, it's not become the dependable indicator that it was before. M2 and M3 have behaved much more predictably. Their rates of change have been much more stable, and I think that the rate in M2 and M3 was more on the order of 8 or 9 percent last year.

Nominal GNP was between 5 and 6, if I'm not mistaken. So that leaves you, perhaps with a 3-percent gap there. My hope would be

that we would not have to pay a price, if there is not a long period where there is a substantial gap between nominal GNP and those broader indicators, M2 and M3.

If we are looking at a bubble, I hope that we will not have to pay a price, but I think I would share the concern that I think you have, if I've read you properly in the press, that if that kind of a gap goes on for too long, you are running some risk that you could have some monetarily created inflation.

The CHAIRMAN. Chairman Volcker has indicated that he is concerned about the freedom that the Federal Reserve Board has in monetary policy, if Congress continues to have these colossal deficits. As you know, the deficits have been around $200 billion a year.

Meanwhile, when you combine with that a monetary policy which is expansive, it seems especially threatening. You say that M2 and M3 increased about a third faster, a third again faster than the increase in nominal GNP, and of course, M1 was 17 percent instead of 5 or 6 percent. That seems to me to be laying the groundwork for very serious inflation.

I wonder under those circumstances, if we shouldn't do what we can to hold down the rate of increase in the money supply as of now.

Mr. KELLEY. Well, sir, as I am sure you are aware, it has, indeed, slowed down in the first quarter. I think that while all those monetary aggregates are obviously very important, we also have to keep in mind what is going on in the real economy. In the real economy, I don't presently see things going on that would indicate that we are in danger of setting off a new spiral.

The CHAIRMAN. There has been a substantial increase in the inflation rate over the last few months.

Mr. KELLEY. Yes, sir, there has. And we will have to watch that very closely. It is the first time that inflation has raised its head since it began to drop precipitously back in the early 1980's. The point that I was making was a limited point, but I think an important one, that some of those economic factors that can really set off an inflation rate, such as capacity constraints, shortages of commodities, rapidly rising unit labor costs, and so forth; those things seem to be under control so far and seem to me to have a reasonable prospect of staying under control.

I think that the inflation that we've had so far has been of the type that we are going to have to see whether or not it's going to be rising or it turns out to be a one-shot sort of an event. Energy prices have been very important in increasing inflation here in the last couple months. They are very volatile, as you know. I am concerned about the fact that import prices have begun to rise, and I hope we watch very closely to determine whether or not that turns out to be a passing phenomenon or whether that's going to set in as a strong, long-term trend.

The CHAIRMAN. Is there any effect the sharp drop in the value of the dollar is going to have on the inflationary effect?

Mr. KELLEY. Yes, sir.

The CHAIRMAN. Of course, we are buying an enormous amount from abroad.

Mr. KELLEY. Yes, sir.

The CHAIRMAN. Also, the competition of imports will be less. Therefore, domestic prices will begin to rise.

Mr. KELLEY. I think we see some of that happening.

The CHAIRMAN. We very much want to promote employment. But the price we pay for that is probably an increase in the cost of living.

Mr. KELLEY. It's a balancing act, as you well know. My hope would be that producers in the United States will attempt to be very competitive on prices and will not simply take advantage of the lower dollar that we now have, in order to raise their own domestic prices.

The CHAIRMAN. Would it be unfair to say that you sound to me like a fine tuner? [Laughter.]

Do you think we can fine tune the economy with the monetary policy? You are referring to the fact that there are many elements now that indicate that the economy is not inflationary, because we have the surplus of labor commodities, a glut of energy, and so forth.

Mr. KELLEY. I doubt very seriously that fine tuning would be effective. And I would suspect that it would probably run the risk of being counterproductive. I think there are many forces that play about the economy, one of which certainly is Federal Reserve monetary policy. And I think that an attempt to fine tune the overall picture with that one tool would probably, (a) not work and, (b) probably would be long-term counterproductive. I am more concerned with trying to do what can be done in the area of the Fed's responsibility to promote dependability and stability and predictability, which are the things that the American community and the American economy, in general, find to be most important.

The CHAIRMAN. The committee has been joined by the distinguished Senator from California, Senator Wilson. We are glad to have you here, Senator Wilson. You have a constituent, Mr. Covitz. We would like to have you introduce Mr. Covitz.

Senator WILSON. Thank you very much, Mr. Chairman. It is a privilege for me to have the honor of appearing before the committee for the purpose of introducing Carl Covitz.

I will state at the outset, Mr. Chairman, that I don't pretend to be dispassionate about the candidate. He is a friend and a good friend. He is also expertly qualified for the responsibility for which he has been nominated. The committee has the record of Mr. Covitz.

I will only touch on some of the points contained in it. He is coming to a responsibility on behalf of the people of the United States to exercise on their behalf the kind of business judgment and knowledge of the housing industry that has made him a great success in the private sector.

Mr. Chairman, I apologize for this voice. You may not have to suffer for even as long as I have intended.

The CHAIRMAN. If you are going to submit yourself to that California climate, you can expect that. [Laughter.]

Senator WILSON. That's true. I should be there all the time. [Laughter.]

He is a graduate of the Wharton School of Finance, where he took his bachelor of science degree. He went on to get an MBA

from Columbia University's Graduate School of Business. He serves today as one of the board of directors of the Columbia Graduate School of Business, in addition to holding a number of other responsibilities. He has been a member of the Young Presidents' Organization. He has been a good citizen serving on the board of directors and actually served as chairman of the Los Angeles County Delinquency and Crime Commission. He has been a supporter of Coro Associates, an organization that I think is well known to the Chairman and to members.

His business background is extensive, and it is varied. He has been a product manager with Bristol-Myers. He was a director of marketing for Rheingold Breweries, a national manager for Canada Dry. He was with the ITT Corp., Levitt & Sons, as their vice president and director of corporate development, before coming to the position at Landmark, where he has been a very, very successful chief executive officer. He has owned his own real estate company since 1972.

It is clear that he understands financing. He understands construction. He understands development. He understands the kind of concerns that have necessarily made the developers' apprehension and the realities of the marketplace forces to be concerned with, if you are directing the fortunes of HUD.

He has been knowledgeable about not only residential but commercial properties. He has fully understood the relationships between developers and the Department of Housing and Urban Development. He has worked nationally in real estate and is familiar with the market in all the major cities of the United States.

As his educational background and his business background have indicated, he has a thorough knowledge of financing, and as such, was asked by the President to serve as a member of the President's Private Sector Survey on Cost Control. He has been a member of the Budget and Expenditure Committee in Subcommittee on Financial Controls for civic organizations too numerous to mention.

I will not take more of the committee's time, Mr. Chairman, than to add what I think is something that you won't find in the record except, implicitly.

Of all the people who have known Carl Covitz, who have had the privilege of doing business with him over the years either in a professional way on a business basis or who have been involved with him civically—he has earned their respect. He is thorough. He is conscientious. He is a man of the highest integrity. In fact, I have never known anybody say an unkind word about him, which having served in the Senate for 4 years, makes me a little suspicious. [Laughter.]

But he is, I think, truly a superb candidate for this responsibility. He has been sufficiently successful, so that he is able to give back to his community and to his Nation, in a different role than even the extensive public service in which he has engaged in the past.

And he has told me repeatedly that he would like to be able to come to Washington, in order to translate some of his own expertise into an advantage for the country, in terms of some of the more challenging policies.

The CHAIRMAN. Thank you very much, Senator Wilson, for a very fulsome and persuasive endorsement of your colleague from California.

I would like to call on Senator Hecht. Before I do that, Senator Hecht, would you permit Senator Cranston, who has arrived, he is, of course, the other California Senator and a distinguished member of this committee. I am going to call on Senator Cranston to introduce Mr. Covitz also.

Senator CRANSTON. Thank you very much, Mr. Chairman. Thank you, Chic.

I thank you, Mr. Chairman, for calling today's hearing in a timely manner, very swiftly.

The position of Under Secretary of Housing and Urban Development is a very important one. It profoundly affects the management of the programs that are vital to our Nation's communities, neighborhoods, and housing system.

Since the administration has left the position unfilled for the past 18 months, action on this in a timely way will contribute.

I am pleased to welcome the President's nominee to the Banking Committee this morning. Carl Covitz is a longtime resident of my State of California. He brings the kind of managerial experience and skill that this high office requires.

Carl Covitz has a strong background of public service in local government. He served as Commissioner of the city of Los Angeles and as chairman of the Los Angeles County Delinquency and Crime Commission. He has also contributed to national policy as a member of the Executive Committee of the President's Private Sector Survey on Cost Control, the Grace Commission.

Carl Covitz has been a successful businessman and cofounder and president of Landmark Communities, Inc. He has had direct experience working in the Nation's housing system.

He has earned a bachelor of science from the University of Pennsylvania and a master's of business administration degree from Columbia University.

He is the kind of responsible businessman and leader that the Department will need over the next months.

His administrative skills and experience should be a particularly important asset for HUD at this particular time.

And both Pete Wilson and I join in supporting him for this nomination.

Mr. Chairman, this committee has taken an important legislative initiative already this year. We have demonstrated our determination to work cooperatively and on a bipartisan basis with the administration. I look forward to working with you, Carl, on the important housing issues facing all of us and our country. I trust the Senate will confirm this nomination very promptly.

Senator WILSON. Mr. Chairman, let me join in the thanks which Senator Cranston has extended to you. I neglected to do so in my remarks, but it has been a matter of great concern to me, and I know to Mr. Covitz, that the confirmation occur as early as possible. So I thank you very deeply for the promptness with which you have moved on this.

The CHAIRMAN. We have a first here this morning, you know. We have both Senators from the 2 sunshine States—Florida and

California—here at the same time. That doesn't happen very often. In fact, it's never happened before. [Laughter.]

That ought to take care of the catch in your throat. [Laughter.]

Senator WILSON. It should.

The CHAIRMAN. Now I call on Senator Hecht.

Senator HECHT. Thank you, Mr. Chairman. I am happy to see the two individuals seated before me are from the business world and can bring some good business common sense to Government.

If I might, just one moment, since I have to leave because of time constraints, ask Mr. Covitz one question just to get a yes or no answer from him.

Did you ever realize that in June 1982—this is from what you have presented on the documentation—June 1982 when you gave Rick Fore a check for $1,000, the man he was running against was Chic Hecht, and he might one day be sitting in judgment on you? [Laughter.]

Mr. COVITZ. No, sir, I did not. [Laughter.]

Senator HECHT. In spite of that, I support you.

Mr. COVITZ. Senator, I recently saw Mr. Fore, and he reminded me of that situation.

Senator CRANSTON. I think I have to acknowledge the fact that I know that Mr. Covitz contributed to my opponent last year, leading me to question one thing about him, his political judgment! [Laughter.]

But on the other hand, maybe his political judgment is wiser, maybe he wouldn't be seated where he is right now. So that is no inhibiting influence on me, as it is not on Chic. I am delighted still to support the nomination.

The CHAIRMAN. Mr. Covitz, I hope you'll keep your cotton-pickin' contributions out of Wisconsin! [Laughter.]

Mr. Kelley, in a few short years, the United States will owe as much as $900 billion to foreigners. The interest burden alone will be staggering.

What policies do you recommend to reverse that sorry state of affairs and bringing our international accounts into balance?

Mr. KELLEY. Well, sir, I think that the condition that has caused those immense debts need to be reversed, and that is the deficit that we continue to incur. I know the Congress is struggling mightily with that, and I hope the Congress will be able to get on with it and be successful with it. That is the best thing that can be done to begin to reduce the debt. It took us a long time to get into this state of affairs, and I think it is going to take a while to get back out.

I share your concern that as these massive amounts of debt pile up, servicing makes the system increasingly fragile, because those costs have to be met, and I would certainly hope that that continuing enlargement of the debt will rapidly slow down.

The CHAIRMAN. What linkage do you see between the budget and trade deficit?

Mr. KELLEY. The numbers are pretty close. They clearly have a relationship with one another. I am not sure just how tight a relationship there is. I would certainly like to see both of them come down together. I think that would be the most orderly thing, and it is desirable that both of them come down. I think probably it's pos-

sible for them to move independently of one another. So I think that while they are linked at least indirectly, I am not sure just how tight that relationship is.

The CHAIRMAN. In your judgment, has the budget deficit caused or contributed to the trade deficit? And if so, how?

Mr. KELLEY. I'm not sure how that would have been. I'm not sure that the conditions that have caused the trade deficit are directly related to the budget deficit.

The trade deficit has, in many senses, arisen out of our own strength rather than our weakness. This country has been the engine for the world in the last few years. Some of our major trading partners have had more sluggish economies than the United States, and the United States has been growing over several years at an average of about 4 percent.

It's been slower, of course, more recently. But, a large part of that trade deficit arises from the fact that we have a very vigorous economy here. And, as a consequence, a very attractive market.

The CHAIRMAN. One of the reasons we have a vigorous economy over the last 4 or 5 years is because we've been running an enormous Federal deficit.

Mr. KELLEY. That is right.

The CHAIRMAN. We're contributors in that sense. We consume more as a result of consuming more from abroad. We're doing our best to try to persuade other countries to adopt a more expansive policy—Germany and Japan particularly.

They have been reluctant. Isn't that one of the reasons why we have to establish a balance?

Mr. KELLEY. I think, as our budget deficit comes down, it will release those sources in the private sector that will keep our economy going on a much more sustainable, long-term basis.

I agree with you, of course, that the fiscal stimulus from the large deficit has been one of the reasons that the economy has moved forward. But I think it's got sufficient strength so that it can actually improve its performance at a much lower level of deficit.

The CHAIRMAN. Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

This committee, after having passed out to the Senate and adopted legislation dealing with some immediate concerns of the banking and thrift industries, is now undertaking what we hope will be a long-term look at where we need to be going in our financial services industry.

We are going to be anticipating substantial assistance in that from the Federal Reserve Board. From your background to date, what would you see as the outline of what America's financial services industry should be by the end of the term that you are now seeking confirmation, sir?

Mr. KELLEY. Well, Senator Graham, as I outlined a few minutes ago, I believe in deregulation as a principle. I think it's been a very efficacious policy where it's been carried forward in the 1980's in our economy.

In the area of financial services I would like to see as much deregulation and a broadening of powers as is consistent, but only as is consistent, with maintaining the integrity and strength of our fi-

nancial institutions; most particularly those who have depository powers and who enjoy the protection of the Federal safety net both in terms of the Federal Deposit Insurance Corporation and the FSLIC, and also access to the Fed discount window.

Maintaining the strength of those institutions is paramount. And while I would like to see financial powers broadened as much as possible, entry simplified as much as possible, it has to be done within the framework of the integrity of those institutions.

Senator GRAHAM. That caveat is really where the tough policy issues are.

How would you approach the question of balancing safety and soundness in a deregulated financial services industry?

Mr. KELLEY. It's very difficult to answer that question. I think one would have to look at it issue by issue over time and as each part related to each other part. I think it has to be done very carefully and with the safety and integrity of the system paramount in mind, and see what you can do within the framework of that concept.

That's not a very definite answer, but I don't know how to give you a very definite answer. I think that it's going to take a lot of thought and careful work.

Senator GRAHAM. What influence in resolving that question do you believe should be given to the advent and increasing presence of non-United States controlled financial institutions in the United States domestic economy?

Mr. KELLEY. I think, so far, we have been pursuing a national treatment policy whereby we have entertained the presence of financial institutions from other countries within the framework of the same regulatory and legal structure that our own institutions have.

I think that's appropriate. I support that.

Senator GRAHAM. No further questions.

The CHAIRMAN. Thank you, Senator Graham.

Mr. Kelley, as you know, the Federal Reserve is a collegial body. They agree and they disagree.

I doubt if you'll always be in the majority. So, as you look back on the conduct of monetary policy over the last 10 years, what are the one or two major issues over which you would have dissented from the actions taken by the majority of the Fed.

Mr. KELLEY. I have not made a study of the actions of the Federal Reserve period by period over that time as it related to the specifics of the situation.

So it really is quite impossible for me to categorically state what and when I might have disagreed with.

I feel very sure that, if confirmed by the Senate and seated on the Federal Reserve Board, as time goes on, there will be occasions when I will differ from my then colleagues.

Retrospectively, it's very difficult for me to comment on that.

The CHAIRMAN. Take the policy that they pursued and you and I discussed a little earlier, over the last year and a half. Would you have gone along on increases in the money supply, which they did? Or would you have dissented?

Mr. KELLEY. Yes, sir, I think I would have been comfortable with the policy that the Fed has followed over the last 18 months.

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The CHAIRMAN. The monetary policy in 1981 some people believe brought on the terrific recession we had in 1982. Would you have dissented from that policy?

Mr. KELLEY. Sir, I just don't have sufficient depth of knowledge to make a judgment on that. I don't know.

The CHAIRMAN. Well, then let me put it another way.

Do you think the Federal Reserve Board overall is correct in following a policy that broke the back of inflation, in the judgment of some people, even though the policy was certainly a factor in precipitating a very deep recession in which unemployment exceeded 10 percent.

Mr. KELLEY. Yes, sir, that is correct. I think it was absolutely essential that the inflationary spiral that we were in at that time be stopped. I am unaware of any alternative ways that could have been followed to achieve that end.

Perhaps they existed and perhaps they could or should have been followed. But I think that was the approach that was best understood, perhaps is best understood today. When you get into a situation like that, perhaps there could have been some differences that would have ameliorated the recession.

But, basically, the inflation was runaway at that time and had to be stopped. As a matter of fact, I think the Fed did a very courageous job of doing that.

The CHAIRMAN. Mr. Covitz, Federal housing programs are primarily directed toward assisting low and moderate income families.

Have you in your private real estate business participated in any of the HUD housing programs?

Mr. COVITZ. No, sir.

The CHAIRMAN. Have you been involved in any of the HUD-assisted community development programs, such as UDAG or HODAG.

Mr. COVITZ. Since the creation of my own firm, Senator, in the early 1970's, I have not participated in any of the HUD programs.

Prior to that, as a part of the Levitt organization, we were involved in some of the programs. That was more than 15 years ago.

The CHAIRMAN. Have you been involved in any activity that would help people secure better housing, and who have low incomes?

Mr. COVITZ. Sir, we have in my own organization, since it was created in the early seventies, we have been concentrating on the high end of the housing range; having started in California, at that point, representing the greatest opportunity.

My involvement with other programs was more in the area of civic responsibilities as a Los Angeles City Commissioner and, at times, for the Los Angeles County Crime and Delinquency Commission.

The CHAIRMAN. That's fine. Then, in that particular function as a Commissioner, can you tell us what your attitude is with respect to providing housing for low income people?

Of course, as we all know, the Federal Government, in my view and the view of most people, should play a minimal or no role at all in providing housing for well-to-do people. They can take care of themselves.

On the other hand, housing is enormously expensive and it's a real problem—not just for the homeless. We're all aware of that heart-breaking situation—but also for low income people generally.

And what should be the function of the Federal Government?

Mr. COVITZ. It's my opinion that the focus of the Federal Government and the Department has to concentrate on the poor and the needy. I expect that, if confirmed by the Senate, in my managerial and administrative capacities in the Department, we will be focusing in that area.

The CHAIRMAN. Now, the Department of Housing and Urban Development has a budget of $15 billion annually to carry out a number of housing and community development programs, and employs some 12,000 workers in some 75 locations in the United States.

As Under Secretary, you would be the chief operating officer responsible for administering the agency.

What, from your work experience would you cite as your best qualification for that demanding position? And would you tell us about both the nature and size of the business operations between the budget and the number of employees that you believe need to be provided for you to meet the qualifications?

Mr. COVITZ. Yes, sir. My background, since graduating from business school, has been varied. It has included large organizations, principally Bristol-Myers Co., a division of ITT; most recently, my own company, created in 1970, which has been involved in real estate activities around the country in various cities, with employees up to 150 people at various times.

I think that the expertise and experience that I can bring to this position as Under Secretary of Housing and Urban Development is one of primarily managerial and administrative skills.

I look to the success that I've been able to achieve over these years as being a factor of being able to bring these people together, motivate them and create objectives and opportunities, allowing them to achieve the results.

The CHAIRMAN. Now, the Grace Commission recommended user fees for Ginnie Mae be increased, and that Fannie Mae and Freddie Mac be privatized.

Did you, as a member of the Grace Commission—and do you now—support those recommendations?

Mr. COVITZ. Senator Proxmire, my responsibilities on the Grace Commission were in the area of cochairman for the task force that evaluated the Department of Defense.

I have not had an opportunity to evaluate the programs that were suggested for revision in the HUD Grace Commission task force.

So, frankly, I can't answer that.

The CHAIRMAN. Can you answer this?

What role do you think Fannie Mae and Freddie Mac should play in the housing finance market?

Mr. COVITZ. I think that Fannie Mae, Ginnie Mae have played an important role to date. I think it should continue in an area that allows the private sector to compete in a fashion that is on equal ground and footing.

The CHAIRMAN. Do you believe that the present mortgage limits on Fannie Mae and Freddie Mac, mortgages are appropriate, or should they be cut, reduced?

Mr. COVITZ. I haven't had the opportunity to decide that, Senator.

The CHAIRMAN. In the next few years, thousands of low income families will lose their rent assistance and their rental accommodations unless HUD takes steps to maintain the supply of assisted housing, and the administration and Congress provide adequate funding.

Although the problem was identified several years ago, the administration has failed to deal with it in its annual budget request.

What are your views regarding that very serious problem?

Mr. COVITZ. Without getting into the specific programs, Senator, and the policies which I haven't yet had a chance to evaluate, I do know that the Department has been investigating, searching for ways of making more efficient and productive use of the resources it has available.

I do know there is the Voucher Program, section 8 program. It seems to allow for the ability to provide more assistance for less money than might be used for new construction.

That's a program whose evaluation is continuing. I fully expect to become involved in and a part of that evaluation.

The CHAIRMAN. Does that mean you would answer affirmatively to this question? And let me ask the question:

Will you press the administration to develop the necessary policies for maintaining an adequate supply of housing and rent assistance beyond the life of the present administration?

Mr. COVITZ. Yes, I think that the administration has a responsibility for providing for the poor and needy in the area of housing.

The CHAIRMAN. Members of Congress have expressed serious concern that a number of HUD appointees have lacked both experience and appropriate ethical sensitivity.

The results have been a high turnover in the political and career managers at HUD, and reduced program efficiency.

Are you aware of this criticism, and have you plans to deal with it?

Mr. COVITZ. I'm aware that there has been criticism in the past. I expect, based on my own experience, the proven success that I have had in the world of business, that I will be able to attract, motivate, and create the objectives for the Department so that it can become more efficient and productive.

The CHAIRMAN. The General Accounting Office, a few years back, made the recommendation for HUD administrative improvements. Have you read those GAO reports?

Mr. COVITZ. No, sir.

The CHAIRMAN. Have you been brought up to date on the actions HUD has taken to carry out those recommendations?

Mr. COVITZ. No, sir.

The CHAIRMAN. Would you expect to get into that and study those reports?

Mr. COVITZ. Yes, sir. I believe that the direction of my responsibilities as suggested by Secretary Pierce is for the management of the Department.

I think, to the extent that there are historic data analysis surveys that will assist in evaluating the Department to make it more productive and efficient, I will take full advantage of them.

The CHAIRMAN. I think you made that clear. And your background certainly qualifies you to do that.

Can you tell us what administrative areas will you focus on to make further improvements in HUD operations?

Mr. COVITZ. No, sir. I don't have the specific issues yet defined.

The CHAIRMAN. Mr. Kelley, some economists have argued that the Federal Reserve should concentrate more on the monetary base as a policy guide rather than monetary aggregates as represented by M1, M2, and M3.

What are the pros and cons of using the monetary base as a measure of monetary policy?

Mr. KELLEY. Senator, I would not feel that I am sufficiently well-grounded in that to expound on that point.

The CHAIRMAN. It's a pretty fundamental choice for a policy basis for the Federal Reserve Board, is it not?

The monetary base has been discussed as a far better measure.

Mr. KELLEY. Yes. I just don't have an opinion on that, sir. I would expect that that is an issue in an area that I would study in great detail at an early date.

The CHAIRMAN. Let me ask you a question that has really bothered this committee. It's bothered, I'm sure, Senator Graham, Senator Shelby and myself and we're very concerned about it. It's not a partisan matter. The Republican members of the committee in the Senate have also been very disturbed about it.

I believe that the success and stability of American banking rests on a centuries old tradition of separating banking from general commerce.

As you know, we're pitted in a battle now against the so-called nonbank banks. To date, the Federal Reserve has staunchly joined us in this battle. Chairman Volcker has made very strong statements about how important it is for us to limit nonbank banks.

As the man who helped found two banks and who also served on a third, what's your opinion of nonbanks?

Mr. KELLEY. As I stated earlier, sir, I would support as much ease of entry, as broad a set of powers for banks and other financial institutions and, for that matter, commercial institutions as it is consistent with maintaining a sound and dependable and strong at all times financial services system.

Within this framework, I would hope that, over time, the Congress would settle this issue one way or the other. The phrase "nonbank bank" would simply disappear from our vocabulary.

The CHAIRMAN. Well, that's an interesting answer, but what would you do about a situation like Sear's Greenwood Trust Company which grew in 1986 from $27 million to $1.48 billion—thirty-eightfold in 1 year.

American Express also has a much bigger nonbank bank than that. Chrysler and Ford are getting them. Other conglomerates. Obviously, these are firms up to their eyebrows in commerce and a nonbank is performing banking functions.

Isn't that a violation of the principle of that law?

Isn't that also something that would, by its very nature, make it extremely hard for regulators, such as you will be as a Governor of the Federal Reserve Board, to control?

Mr. KELLEY. I think the key to the matter is to maintain the integrity of the depository system and the Federal safety net that undergirds that. As I read statements by Chairman Volcker, for instance, I think the concern is that you cannot build a structure whereby you can ensure that the integrity of the institution that enjoys those protections and those powers is, in fact, insulated from a parent or from a sister company that may possibly have either difficulties or designs on some of the capital, or whatever it might be inside a larger corporation.

I think there is some disagreement as to whether or not it is possible to build that so-called Chinese wall.

The CHAIRMAN. How do you feel about it?

Mr. KELLEY. I don't know. If I were to ascertain that it was not possible to build a satisfactory wall that would protect that institution that had the depository powers, and the protection of the Federal safety net, then I would oppose allowing a system to evolve, that was not completely, clearly protecting one sister company from another, so that the depository institution had assured safety.

The CHAIRMAN. Haven't we had a long, long experience with Chinese walls constantly in financial institutions separating one activity from another? And haven't we had a long succession of failures in making them effective?

Mr. KELLEY. I'm not sure whether the answer to that question is yes or no, but I think that whatever evolves or is on the table as a potential evolution in this area would have to be looked at uniquely because it would be a unique circumstance that has not existed before. And it would have to be examined very carefully and very critically.

And we would have to ensure ourselves.

The CHAIRMAN. The surest kind of a Chinese wall is to say that one firm, one corporation cannot do both activities; cannot engage in commerce in the one hand and banking on the other.

That's been a principle that we've tried to establish. It has a good, clean, clear administrative policy that you follow in order to prevent it. Just say they can't do both.

Mr. KELLEY. I think the conditions of both commerce and finance—and I think we're in a worldwide market now, where different countries have different configurations—they should have the ability to engage themselves wherever they want to and properly can, and compete.

Banks certainly need to have broader powers in order to be an effective competitor today. And I think our society would benefit from having an open as possible system for entry into many of the different parts of the financial services industry.

Again, I always want to add the caveat that we have to look to the integrity and safety of the system first and foremost. But we also have to see if we don't need to move with the times in order to allow these institutions to maintain competitive viability.

The CHAIRMAN. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Mr. Kelley, how do you overall view your basic responsibility of going in, assuming you're confirmed by the Senate, as a member of the Board of Governors of the Federal Reserve?

Mr. KELLEY. Well, sir, I think that there are probably 3 distinctive areas that the Federal Reserve Board has to work in. And I believe that all of the Governors are involved in all 3 of these activities.

The first would be what I would call the nuts and bolts of central banking, particularly as it would relate to international relationships.

The second is policy setting, monetary policy primarily, which is obviously vital and which we've been talking about in large part here this morning.

The third set of responsibilities that consume a lot of the Board's time and attention are in the area of governance and business management.

The Federal Reserve System is a good-sized business and it has to be run. There are a large number of regulatory matters that come before the Board, both within the framework of operating the 12 district banks and also regulatory authorities that have been granted to the Board by Congress that might come under the heading of governance.

So I think all three of those areas are critical to the day to day work of the Board.

Senator SHELBY. Speaking of your regulatory matters, and I recognize that you do have some responsibility there, do you believe that the Federal Reserve Board should make legislative decisions, such as whether a bank should be in the real estate business or in the insurance business, and so forth, like that?

Or do you believe that should be left up to Congress to make public policy in those regards?

Mr. KELLEY. I certainly think that the Congress should make public policy, and the Fed operates within the framework of whatever the law of the land is at any given time.

Senator SHELBY. But they also interpret the law, or try to, do they not? And, sometimes, on a 3/2 decision or a different type?

Mr. KELLEY. In fact, they recently did, as you know. I think the Board does have to interpret the law very often. It's unavoidable to do that. And I think they do it in good conscience.

As we said a few moments ago—perhaps you weren't here—that 3/2 vote the other day was on just such a point.

There was no disagreement on the substance of the issue among all five of the Governors, as I read in the press. The dissent by the Chairman and Governor Angell was largely in the area of the fine legal point as to whether or not the Board had the power to make the decision.

Senator SHELBY. I want to touch on something that Chairman Proxmire got into—the nonbank banks. At the rate they're growing, which is by leaps and bounds, and they have tremendous financial clout behind them, is it going to be that they're de facto out there?

In just a year or two they're going to be everywhere?

It reminds me of a country overrunning another one with a big army and saying, well, do you want to talk peace and let's negotiate. What type legislation we're going to see.

Because, if they keep going, they're going to be everywhere. They're going to be into everything. And then there will be, as there always has been in a political body, political accommodation of various interests, because everybody has a constituency.

Do you care to comment on that?

Mr. KELLEY. I think what's going on today is that we have a very undesirable type of deregulation that's creeping along through lawsuit and loophole. And I think that is unfair and unwise and dangerous.

Senator SHELBY. Do you believe we're paralyzed legislatively regarding making public policy regarding the banks?

Mr. KELLEY. I would certainly hope not. And I look forward to the Congress settling that issue.

Senator SHELBY. One last question, if the Chairman will permit me here.

You mentioned that one of your responsibilities is dealing, as you well know, with the monetary situation, the interests of this Country in monetary policy and trade, and so forth.

One, does it trouble you as a banker? You've been involved in a lot of businesses and have been very successful. Does it trouble you that now, in the United States of America, that we don't possess the largest banks in the world? That we are not an exporter of capital? That we are not going to be a big player in the world market if something is not done as far as commercial banks are concerned?

Mr. KELLEY. I think it's unlikely that we will get to the point where we're not a major player. I think an economy of the strength and vitality and sheer size of this one——

Senator SHELBY. But we're not dominant any more, are we?

Mr. KELLEY. We're not totally dominant, and I think that's probably healthy. We live in a world where there are other peoples and other sovereign nations. And they have their own financial systems, and I think that's fine.

I think we ought to be a very strong and effective competitor. I think we ought to be a leader. I would not expect that it would be necessarily desirable that we'd be overall dominant.

Senator SHELBY. Are you concerned with the dollars value and the way it has fallen so far?

Mr. KELLEY. Yes, sir, I'm concerned that it has been somewhat disorderly and, in that sense, disruptive. I think that it clearly got too high and needed to come back.

I think that the administration is probably correct that it's now around the area where it should be now. I think, if we're shooting for a level playing field here in international trade, we had gotten to a situation where there was an unfair place in the playing field in the sense of a too high dollar.

I think that's largely been corrected. However, I hope that the dollar will stabilize now, which would be the best thing that could happen in the direction of having a level playing field, and allow us to concentrate on some other matters.

Senator SHELBY. As a future member of the Board—I trust you will be—don't you think you would play a part in the stabilization of that dollar?

Mr. KELLEY. As I read in the press, the Fed has been playing a role in that.

Senator SHELBY. Do you plan to help play that role?

Mr. KELLEY. As appropriate, I would hope so, yes, sir.

Senator SHELBY. Thank you.

The CHAIRMAN. Senator Gramm.

Senator GRAMM. Mr. Covitz, I'm impressed that you have had extensive business activities in most of the growth States in the country. Those are States such as mine and your home State, that have had particularly serious problems in meeting the needs of low and moderate income families because of that rapid growth, which, in turn, has driven up real estate construction prices.

From your experience in Los Angeles County or elsewhere, what have you seen to be some of the more successful programs to deal with the needs of low to moderate income families that might be susceptible to replication elsewhere in the country?

Mr. COVITZ. Senator Gramm, I don't have personal involvement in any of the low and moderate income programs currently.

On the other hand, I do know that the Department has been working for a number of years on the Voucher Program, which does allow for freedom of choice for the assisted family, as opposed to new construction, which is not as efficient and is certainly more costly.

I think, to the extent that the Department can continue to search for ways to make the existing funds more efficient, more productive, I think the extension of the Voucher Program, or perhaps even more concentration on rehabilitation of existing housing stock as opposed to new construction—which is exceedingly more expensive—that that appears to be a way to be more efficient and productive.

Senator GRAMM. In growth areas such as California and Florida, do you believe those programs can meet the need? That is, is there a sufficient housing stock in the context of the additional population that has to be served, that is available to be rehabilitated to meet the needs?

Mr. COVITZ. Senator, I do believe for the most part there are existing housing inventories available for utilization or rehabilitation.

I also believe, based on the experience I've had, that the partnership between the private sector and government agencies could go a long way toward creating the availability of housing in terms of expediting the process of building, which has become more cumbersome and certainly much more expensive.

Senator GRAMM. That's all.

The CHAIRMAN. Thank you, Senator Gramm.

I have just a few more questions. I'd like to ask a unanimous consent, however, that a statement by Senator Alan Dixon be placed at the beginning of the hearing before we start the questioning.

That's a statement both on the Edward Kelley nomination and on the Carl Covitz nomination.

STATEMENT OF SENATOR ALAN DIXON

Senator DIXON. Mr. Chairman, I am pleased to be here this morning as the committee holds this hearing on the nomination of Edward Kelley, Jr. of Texas, to be a member of the Board of Governors at the Federal Reserve. I hope no one underestimates the importance of this hearing and of the position to be filled by this nominee.

This hearing comes at an uncertain time for the U.S. economy. Federal Reserve policy must move this Nation on a path toward sustained economic growth. Although some economic indicators have shown improvement, the trade deficit continues to grow while we do not seem to be using all of our industrial capability. Although the dollar has declined dramatically, our trade deficit has, to date, failed to respond as expected. I believe it clear that we are entering a difficult period in monetary policy as Chairman Volcker himself alluded in his testimony before this committee a month ago.

The first quarter of this year saw GNP surge ahead at 4.3 percent while consumer spending fell. If this growth is sustained I believe it could be very good news for the Nation's unemployed. However, the continued drop of the dollar seems to be driving interest rates higher and could result in renewed inflation, thereby jeopardizing economic growth.

I look forward to hearing Mr. Kelley on the issues I have mentioned, and on other issues related to the conduct of monetary policy by the Federal Reserve.

Mr. Chairman, I am also pleased that this morning the committee will consider the nomination of Carl D. Covitz to be Under Secretary of Housing and Urban Development.

I think it is appropriate to bring a matter of particular concern to Mr. Covitz' attention relating to low-income housing projects.

As Mr. Covitz may know, the Federal Government provides aid to public housing agencies (PHA's) as follows:

(1) To remedy unsafe and unsanitary housing conditions and the acute shortage of decent, safe and sanitary housing for low-income families;

(2) For project operations; and

(3) To finance capital improvements in public housing projects.

While I realize that some PHA's have not lived up to their responsibilities and have chronic operating budget deficits caused in part by inefficient management, I express particular concern here today because I fear that HUD has been negligent in fulfilling its obligations to PHA's.

Public housing in most cities is plagued with vandalism, maintenance problems, and unsafe and unsanitary conditions. There are many vacant and deteriorating housing units and the problems keep mounting.

I have a particular concern because just some 19 months ago, with no other reasonable alternative, HUD assumed control of the troubled PHA in my own State of Illinois in East St. Louis. Just recently, the second largest housing authority in this country, the Chicago Housing Authority, announced that it is facing the worst financial crisis of its 50-year history.

These are problems that if confirmed, I encourage Mr. Covitz to immediately investigate and to work with this committee to find short-term financial and management assistance and long-term recommendations.

The CHAIRMAN. Mr. Kelley, the Community Reinvestment Act requires the release of the Community Investment Record of any bank that seeks to form a bank holding company.

Of course, that means that the bank should have an incentive to invest in its own community. Banks have a tendency—it's true in the District of Columbia, as it was in some other places, of taking deposits in their community, especially low income people, and then making their investments outside the community.

And of course that's something we try to correct. On October 17 of last year, the case of Advanced Bank Corp., the Board granted the holding company application involving a bank that had never received a satisfactory community reinvestment rating.

According to Governor Rice's cogent dissent, the bank was, and I quote, "one of only a handful of financial institutions in the country with such a consistently poor record."

Decisions like that make me wonder whether the Board gives a lip service to the Community Reinvestment Act and makes no real effort to enforce it.

My question is will you take a bank's community reinvestment record into account?

Mr. KELLEY. Yes, sir. I think that's an important responsibility.

The CHAIRMAN. I appreciate that. And I hope that you'll be successful in persuading your colleagues to recognize that, too.

Mr. Kelley, ever since adjustable rate mortgages became popular in finance, there have been concerns about improving disclosure. The Federal Financial Institutions Examination Council considered the problem as early as 1984. Yet, it is now 1987 and I'm unaware that a disclosure requirement has been proposed.

What do you think about strengthening adjustable rate mortgage disclosures?

Mr. KELLEY. Sir, I'm not familiar with exactly what that disclosure looks like at this time. If it would require strengthening or could be strengthened, I would certainly support that.

I think that one problem, and this is a generality—I don't address that particular disclosure because I'm not familiar with it. But, as a generality, I think that Government regulations tend to be a little difficult for the average person on the street to understand.

And I think that one thing we need to strive for to the best of our ability is to try to write those disclosures in plain English so people can understand and still achieve disclosure.

The CHAIRMAN. This committee is responsible for the Truth in Lending Act. As you know, that went into effect in 1969. The Federal Reserve Board made a study of it and found, to me, an astonishing understanding now of what the true annual rate is, the financial cost, and so forth.

I think that was an enormously constructive action because now you have effective competition, competition that the consumer understands when he goes to borrow money.

As a matter of fact, it's helped banks because banks are our most efficient lenders anyway. But, whether it helps or hurts banks, it's good for the consumer and good for the country.

So I think disclosure is something that people can understand, as you say, if it's done in simple, understandable English. And people are told what the facts are.

Mr. KELLEY. I think it's very important to do that. And to the extent that the Fed has a responsibility in that area, think it's a very important responsibility for the Fed.

The CHAIRMAN. Thank you, Mr. Kelley.

Thank you, Mr. Covitz.

You are certainly excellent witnesses. You've responded fully to my questions, and we appreciate that very much.

The committee will stand adjourned.

[Whereupon, at 11:20 a.m., the committee adjourned, subject to the call of the chair.]

[The prepared statement of Carl D. Covitz, biographical sketch of nominees, and additional material for the record follow:]

STATEMENT OF UNDER SECRETARY-DESIGNATE
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CARL D. COVITZ

Mr. Chairman and members of the Committee, it is a privilege for me to appear before you this morning as President Reagan's nominee to be Under Secretary of the Department of Housing and Urban Development

I am deeply honored that the President has asked me to serve in this capacity and, if I am confirmed by the Senate, I will commit my efforts unstintingly to carrying out the Department's mission and achieving the President's goals.

I am grateful for the confidence and support of Secretary Pierce, and as Under Secretary, it would be my intention to assist him in building on the significant accomplishments of the past six and one half years. Secretary Pierce and the dedicated people at the Department of Housing and Urban Development have moved successfully to reduce the size and scope of the Department while maintaining a firm commitment to assist Americans, especially the poor and needy, to meet their housing needs while also focusing on the revitalization of our cities and towns.

Mr. Chairman, the majority of my working career has been devoted to the development of housing in the private sector. For the past 14 years, I have been owner and president of a national

REAL ESTATE AND INVESTMENT COMPANY WHOSE ACTIVITIES INCLUDE CONSTRUCTION, FINANCING, MANAGEMENT AND SALE OF RESIDENTIAL AND COMMERCIAL PROPERTIES. I HAVE ALSO SERVED AS A COMMISSIONER OF THE CITY OF LOS ANGELES, AND AS CHAIRMAN OF THE LOS ANGELES COUNTY DELINQUENCY AND CRIME COMMISSION. THESE EXPERIENCES HAVE GIVEN ME A FIRST-HAND UNDERSTANDING OF SOME OF THE CHALLENGES FACING OUR CITIES. I HAVE ALSO SEEN THE TREMENDOUS CONTRIBUTIONS WHICH COORDINATED EFFORTS AMONG LOCAL COMMUNITY LEADERS FROM THE PRIVATE SECTOR AND ALL LEVELS OF GOVERNMENT CAN MAKE IN MEETING HUMAN NEEDS.

I THUS BRING TO THIS POSITION A KEEN APPRECIATION OF THE AMERICAN FREE ENTERPRISE SYSTEM AND WHAT IT CAN ACCOMPLISH, AS WELL AS THE VITAL ROLE GOVERNMENT PLAYS IN THE LIVES OF OUR PEOPLE.

WHILE I HAVE NOT HAD DIRECT INVOLVEMENT WITH HUD IN RECENT YEARS, I AM AWARE OF THE VARIETY AND SCOPE OF ITS PROGRAMS, AND I AM COMMITTED TO IMPROVING THEIR EFFICIENCY AND EFFECTIVENESS.

I BELIEVE I BRING TO THIS ASSIGNMENT STRONG MANAGERIAL TALENTS WHICH CAN BE USEFULLY EMPLOYED AT HUD. IN THIS DAY OF LIMITED FEDERAL RESOURCES, THERE CAN BE NO GREATER CHALLENGE THAN THAT CONFRONTING HUD: HOW TO DO MORE WITH LESS. AS A MEMBER OF THE EXECUTIVE COMMITTEE OF THE PRESIDENT'S GRACE COMMISSION, I LEARNED THAT THERE IS ALWAYS ROOM FOR IMPROVING EFFICIENCY

AND PRODUCTIVITY IN GOVERNMENT WITHOUT ENDANGERING THE PUBLIC MISSION OF THE AGENCY. I WELCOME THE CHALLENGE OF WORKING WITH CONGRESS AND THE ADMINISTRATION TO IMPROVE HOUSING OPPORTUNITIES FOR ALL AMERICANS AND TO PROMOTE THE ECONOMIC GROWTH OF OUR COMMUNITIES.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I SINCERELY APPRECIATE THE HONOR WHICH PRESIDENT REAGAN HAS BESTOWED UPON ME BY NOMINATING ME TO BE UNDER SECRETARY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. TO BUILD UPON THE ACCOMPLISHMENTS WHICH HAVE BEEN ACHIEVED AT HUD TO DATE WILL DEPEND UPON ALL OF US COOPERATING TOGETHER AS PARTNERS.

I LOOK FORWARD TO WORKING WITH THIS COMMITTEE AND ITS STAFF AND WITH MY COLLEAGUES IN THE EXECUTIVE BRANCH TO ADVANCE THE VITAL MISSION OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: KELLEY JR. (LAST) EDWARD (FIRST) WATSON (OTHER)

Position to which nominated: Governor, Federal Reserve Board Date of nomination: 4-27-87

Date of birth: 27 (DAY) 1 (MONTH) 32 (YEAR) Place of birth: Eugene, Oregon

Marital status: Married Full name of spouse: Ellen Louise Elizardi Kelley

Name and ages of children: Kinsloe Kelley Queen (30)
James Micajah Kelley (27)
Michael McIver Kelley (25)

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Kinkaid	1942-1947	N/A	
Woodberry Forest	1947-1950	Highschool	1950
Rice University	1950-1954	B.A.	1954
Harvard Business School	1957-1959	M.B.A.	1959

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
See Attachment A		

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

9/25/81 to present -Investment Advisors, Inc., Chairman
Houston, Texas

6/30/81 to present -The Shoreline Companies, Inc., Chairman
Houston, Texas

2/1/73 to 6/30/81 -Kelley Industries, Inc., President and CEO
Houston, Texas

7/1/56 to 6/30/81 -Kelley Manufacturing Company, President & Chairman
Houston, Texas

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

None

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

None

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Director of HOUPAC. Inactive.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

See attached B

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See attached C

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

None

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I will make any divestment, as required; and alter or sever any relationships, as required.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

Attachment A

Memberships:

Organization	Office held (if any)	Dates
Investment Advisors, Inc.	Chairman	1981-to present
The Shoreline Companies, Inc.	Chairman	1981-to present
Rally Club of Rice University	Vice President	1953-1954
Young President's Organization	Chapter Chairman	1962-1982
World Business Council		1982-to present
Houston Club	Board of Directors	1960-to present
Texas Industries, Inc.	Board of Directors	1976-to present
Distribution Systems, Inc.	Board of Directors	1977-1984
KI Holdings, Inc.	Board of Directors	1981-1983
Kelley Industries, Inc.	President & CEO	1973-1981
Kelley Manufacturing Company	President & Chairman	1956-1981
Westwood Commerce Bank	Board of Directors	1974-1982
West Belt National Bank	Board of Directors	1982-1984
Southern National Bank	Board of Directors	1961-1972
Rice University	Trustee & Governor	1977-to present
National Association of Independent Schools	Trustee Committee	1977-1982
St. John's School	Chairman, Bd. of Trustees	1972-1981
Metropolitan YMCA	Board of Directors	1970-1971
Harris County United Fund	Agency Operations Comm.	1966-1969
Better Business Bureau	Executive Committee Vice Chairman	1978-1981 1980-1981
Girl Scouts of America San Jacinto Chapter	Director, Treasurer	1964-1970
The Forum Club of Houston		1981-to present
Harvard Business School Club of Houston	Board of Directors	1959-to present
Houston Philosophical Society		1971-to present
St. Luke's Methodist Church Foundation	Vice Chairman	1978-to present

Attachment B

Political contributions:

1979		
2/13/79	George Bush for President	$ 1,000
9/19/79	George Bush for President	250
1980		
9/22/80	Fields for Congress	500
10/27/80	Harris County Republican Party	500
1981		
11/6/81	Jim Greenwood Campaign Fund	500
1982		
5/28/82	HOUPAC	1,000
1983		
3/4/83	HOUPAC	1,000
1984		
2/84	HOUPAC	1,000
2/24/84	Friends of Phil Gramm	2,000
8/8/84	Victory '84 (Reagan)	1,000
1985		
5/23/85	HOUPAC	1,000
10/31/85	Fund For America's Future (George Bush)	500
1986		
4/7/86	Fund For America's Future (George Bush)	500
4/11/86	HOUPAC	1,000

Attachment C

Qualifications:

The duties of the Governor of the Federal Reserve System can fairly be divided into three categories: technical central banking activity, policy setting based on macro and micro economic judgments, and institutional governance and management. In passing the various statutes that created and now control the System, Congress foresaw this broad variety of activity that would confront the Board, and instructed the President to nominate Governors with "due regard to a fair representation of the financial, agricultural, industrial and commercial interests."

Continually from 1959 to date, I have had primary profit and loss responsibility for corporations in (successively) distribution, manufacturing, and financial service. I have been a founder of two banks, and joined the Board of a third within several months of its opening. Additionally, I have been an active Director in other companies involved in aggregates, cement and concrete, distribution, real estate development, steel, terminaling, and trucking. These are among the most competitive and entrepreneurial industries in our economy. Most of these involvements have been in corporations with under $100 million in sales, the size category that includes virtually all of the net growth in employment that has occurred in our country in recent years.

As a manager of financial asset portfolios over the past five years, I have continuously studied and monitored the U.S. economy.

In the not-for-profit sector, I have served actively in nine institutions variously as Chairman, Trustee, Director or other officer.

In sum, it is my belief that experience in activities related to those in which the Board must act, and insight into areas in which the Board must make judgments, will enable me to make a useful contribution to the nation as a Governor of the Federal Reserve System.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Covitz (LAST) Carl (FIRST) D. (OTHER)

Position to which nominated: Under Secretary/HUD Date of nomination:

Date of birth: 3/31/39 (DAY) (MONTH) (YEAR) Place of birth: Boston, Mass.

Marital status: Married Full name of spouse: Aviva Habert Covitz

Name and ages of children: Philip, 14 Marc, 10

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Univ. of Pennsylvania	1956-1960	B.S.	1960
Columbia Univ. Graduate School of Business	1961-1962	M.B.A.	1962

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Young Presidents' Org.	Executive Comm.	Current
Los Angeles Museum of Contemporary Art	Chairman-Operations	1979-1982
Phi Epsilon Pi		1957-1960
Regency Club		Current
Balboa Bay Club		Current

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

1972-present: Landmark Communities, Inc., Owner; 9595 Wilshire Blvd., Ste. 301, Beverly Hills, CA; President.

1970-1972: Levitt & Sons, a Division of ITT; Battle Creek, MI, Vice President Sales and Marketing.

1968-1970: Canada Dry Corp., 100 Park Ave., New York, N.Y.; Marketing Manager.

1966-1968: Rheingold Breweries, Brooklyn, N.Y.; Marketing Manager.

1962-1968: Bristol-Myers Products Division, 630 Fifth Ave., New York, N.Y.; Bufferin Product Manager.

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

President's Private Sector Survey on Cost Control (Grace Commission), Washington, D.C., Executive Committee.

City of Los Angeles Convention Center Commission, Commissioner.

Los Angeles County Delinquency and Crime Commission, Chairman.

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

California Republican Party, Past Member: State Central Committee, Budget and Expenditures Committee, Financial Controls Subcommittee, Audit Committee.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

See attached list.

Qualifications: State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I will take a leave of absence from my existing companies and operating partnerships.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

Yes.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Carl D. Covitz
Political Contributions

Date	Name	Amount
Oct-86	Conway Collis	$1,000
Aug-86	Ed Zchau	$1,000
Aug-86	Yes on 65	$1,000
Aug-86	John McCain	$1,000
Jul-86	John McCain	$1,000
May-86	Conway Collis	$600
May-86	Ed Zchau	$1,000
May-86	Mike Curb	$1,000
Apr-86	Wolverton	$500
Apr-86	Bobbi Fiedler	$500
Nov-85	John Van de Kamp	$500
Jul-85	Conway Collis	$500
Jun-85	Art Laffer	$1,000
Apr-85	Pete Wilson	$1,000
Oct-84	Reagan General	$1,000
Jul-84	Pete Wilson	$1,000
Jul-84	Reagan Primary	$1,000
Oct-83	Bill Cohen	$1,000
Jun-82	Rick Fore	$1,000
Apr-82	Mike Curb	$2,000
Apr-82	John McCain	$1,000
Nov-81	Pete Wilson	$1,000

CARL D. COVITZ

Job Qualifications

I am the cofounder, owner and president of Landmark Communities, Inc., a national real estate development and investment company with offices in Los Angeles, New York, Florida, Ohio and Arizona, whose activities include residential properties as well as commercial and industrial. In addition to having had seventeen years of experience in the building and real estate industry, I have had considerable success as a manager and administrator in both large organizations and small companies.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None.

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Not applicable.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

I was one of many defendants in a lawsuit filed by a homeowner's association against all parties involved in the development, construction, financing, and operation of a condominium project. The lawsuit was settled out of court and I did not contribute to the settlement.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

National Association of Home Builders
15th and M Streets, N.W., Washington, D.C. 20005
Telex 89-2600 (202) 822-0400 (800) 368-5242

James M. Fischer, Jr.
1987 President

May 5, 1987

Honorable William Proxmire, Chairman
Committee on Banking, Housing and Urban Affairs
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of the 145,000 members of the National Association of Home Builders, I would like to recommend that Carl Covitz of Beverly Hills, California be confirmed as the Under Secretary of the U.S. Department of Housing and Urban Development.

Mr. Covitz is a commercial and residential builder who has been active in local government.

I am proud to endorse Carl without reservation. His loyalty and political support to the Administration are well known.

Sincerely,

James M. Fischer, Jr.